



0000155137

BEFORE THE ARIZONA CORPORATION

RECEIVED

2014 AUG -1 P 2:55

AZ CORP COMMISSION
DOCKET CONTROL

COMMISSIONERS

BOB STUMP - Chairman

GARY PIERCE

BRENDA BURNS

BOB BURNS

SUSAN BITTER SMITH

ORIGINAL

IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY
FOR A HEARING TO DETERMINE THE
FAIR VALUE OF THE UTILITY PROPERTY
OF THE COMPANY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, AND TO APPROVE RATE
SCHEDULES DESIGNED TO DEVELOP
SUCH RETURN.

DOCKET NO. E-01345A-11-0224

STAFF'S NOTICE OF FILING
TESTIMONY SUMMARIES

Staff of the Arizona Corporation Commission ("Staff") hereby files the Summaries of the
Testimonies of Dennis M. Kalbarczyk and James C. Letzelter in the above docket.

RESPECTFULLY SUBMITTED this 1st day of August 2014.

Maureen A. Scott, Senior Staff Counsel
Charles H. Hains, Attorney
Janet Wagner, Assistant Chief Counsel
Scott Hesla, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies
of the foregoing filed this
1st day of August 2014 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission

DOCKETED

AUG 01 2014

DOCKETED BY

1 Copies of the foregoing mailed this
2 1st day of August 2014 to:

3 Melissa M. Krueger
4 Thomas L. Mumaw
5 Pinnacle West Capital Corporation
6 400 North 5th Street, MS 8695
7 Phoenix, Arizona 85004
8 Attorneys for Arizona Public Service
9 Company

10 C. Webb Crockett
11 Patrick J. Black
12 Fennemore Craig, PC
13 2394 East Camelback Road, Suite 600
14 Phoenix, Arizona 85016
15 Attorneys for Freeport-McMoRan and
16 Arizonans for Electric Choice and
17 Competition (AECC)

18 Daniel W. Pozefsky, Chief Counsel
19 Residential Utility Consumer Office
20 1110 West Washington, Suite 220
21 Phoenix, Arizona 85007
22 Attorneys for RUCO

23 Michael A. Curtis
24 William P. Sullivan
25 Curtis, Goodwin, Sullivan,
26 Udall & Schwab, PLC
27 501 East Thomas Road
28 Phoenix, Arizona 85012-3205
Attorneys for the Town of Wickenburg and
Town of Gilbert

Timothy M. Hogan
Arizona Center for Law in the Public Interest
202 East McDowell Road, Suite 153
Phoenix, Arizona 85004
Attorneys for WRA, SWEEP, ASBA/AASBO

Jeff Schlegel
SWEEP Arizona Representative
1167 West Samalayuca Drive
Tucson, Arizona 85704

David Berry
Western Resource Advocates
Post Office Box 1064
Scottsdale, Arizona 85252-1064

Barbara Wyllie-Pecora
14410 West Gunsight Drive
Sun City West, Arizona 85375

Kurt Boehm
Jody M. Kyler
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
Attorneys for The Kroger Co.

Jeffrey W. Crockett, Esq.
Brownstein Hyatt Farber Schreck LLP
One East Washington Street, Suite 2400
Phoenix, Arizona 85004
Attorneys for Arizona Association of Realtors

Michael W. Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004
Attorneys for Tucson Electric Power Company

Bradley S. Carroll
UniSource Energy Services
Legal Department - MS HQE 910
Post Office Box 711
Tucson, Arizona 85702

Cynthia Zwick
1940 East Luke Avenue
Phoenix, Arizona 85016

Michael M. Grant
Gallagher & Kennedy, PA
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for AIC

Gary Yaquinto, President & CEO
Arizona Investment Council
2100 North Central Avenue, Suite 210
Phoenix, Arizona 85004

Karen S. White
Samuel T. Miller
Air Force Utility Law Field Support Center
AFLOA/JACL-ULFSC
139 Barnes Drive
Tyndall AFB, Florida 32403

1 Greg Patterson, Of Counsel
Munger Chadwick
2 2398 East Camelback Road, Suite 240
Phoenix, Arizona 85016
3 Attorneys for Arizona Competitive Power
Alliance
4
Nicholas J. Enoch
5 Jarrett J. Haskovec
Lubin & Enoch, PC
6 349 North Fourth Avenue
Phoenix, Arizona 85003
7 Attorneys for IBEW Locals 387, 640 & 769
8
Lawrence V. Robertson, Jr.
Post Office Box 1448
9 Tubac, Arizona 85646
Attorney for Southwestern Power Group II,
10 LLC; Bowie Power Station, LLC; Noble
Americas Energy Solutions LLC;
11 Constellation NewEnergy, Inc.; Direct
Energy, LLC and Shell Energy North
12 America (US), LP
13
Laura E. Sanchez
Natural Resources Defense Council
14 Post Office Box 65623
Albuquerque, New Mexico 87193
15
Jay I. Moyes
16 Steve Wene
Moyes Sellers & Hendricks
17 1850 North Central Avenue, Suite 1100
Phoenix, Arizona 85004
18 Attorneys for AzAg Group
19
Jeffrey J. Woner
K.R. Saline & Assoc., PLC
20 160 North Pasadena, Suite 101
Mesa, Arizona 85201
21
Scott S. Wakefield
22 Ridenour, Hinton & Lewis, PLLC
201 North Central Avenue, Suite 3300
23 Phoenix, Arizona 85004-1052
Attorneys for Wal-Mart Stores, Inc.
24
25
26
27
28

Steve W. Chriss
Senior Manager, Energy Regulatory Analysis
Wal-Mart Stores, Inc.
2011 S.E. 10th Street
Bentonville, Arkansas 72716-0550

Craig A. Marks
Craig A. Marks, PLC
10645 North Tatum Boulevard
Suite 200-676
Phoenix, Arizona 85028
Attorney for AARP

John Moore, Jr.
7321 North 16th Street
Phoenix, Arizona 85020

Douglas V. Fant
Law Offices of Douglas V. Fant
3655 West Anthem Way
Suite A-109, PMB 411
Anthem, Arizona 85086

Amanda Ormond
Southwest Representative
Interwest Energy Alliance
7650 South McClintock Drive
Suite 103-282
Tempe, Arizona 85284

Travis Ritchie
Nellis Kennedy-Howard
Sierra Club Environmental Law Program
85 Second Street, 2nd Floor
San Francisco, California 94105



**TESTIMONY SUMMARY OF
DENNIS M. KALBARCZYK
ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-11-0224**

Dennis M. Kalbarczyk submitted Direct and Surrebuttal Testimony on behalf of the Utilities Division ("Staff") of the Arizona Corporation Commission ("ACC" or "Commission") regarding the application of Arizona Public Service Company ("APS" or "Company") for approval of a Four Corners Rate Rider ("Rider"). His testimony addressed the appropriate calculation of the Rider as it relates to: (1) the rate base and expense effects associated with APS's acquisition of the Southern California Edison ("SCE") interest in Four Corners Units 4 and 5, (2) the rate base and expense effects associated with the retirement of Units 1-3; and (3) recovery of the cost deferrals authorized in Decision No. 73130.

Mr. Kalbarczyk opposes APS's proposed application of an 8.33 percent Weighted Average Cost of Capital ("WACC") to the Four Corners rate base value for purposes of determining the revenue requirement. He explains that Commission Decision No. 73183 adopted a Fair Value Rate of Return ("FVROR") of 6.09 percent, which is to be applied to APS's fair value rate base. Mr. Kalbarczyk also addresses APS suggestion that the 6.09 percent FVROR should be recalculated based upon the use of the 8.33 percent WACC. He states that recalculating the FVROR (to adopt a FVROR other than 6.09 percent) would appear to cancel the result achieved through Section 5 of the Settlement Agreement. That provision simply and clearly states that it adopts a fair value rate of return of 6.09 percent.¹

He recommends that the Company's computed jurisdictional revenue deficiency of \$65.436 million (which is based on its proposed 8.33 percent WACC) be adjusted downward to reflect the Commission authorized 6.09 percent FVROR. He, therefore, recommends a reduction of \$8.39 million or an adjusted \$57.05 million revenue deficiency. This revision would reduce the surcharge rate from 2.33 percent to 2.03 percent.

Mr. Kalbarczyk also recommended that the FCA tariff language be amended to make explicit that the Four Corners Rider shall only remain in effect until the Company's next rate case. His Surrebuttal Testimony observes that APS has accepted this recommendation.

Mr. Kalbarczyk's Surrebuttal Testimony addresses AG-1 customers' position that the Rider not apply to this customer class. He agrees with the APS proposal to apply the surcharge rate only to the non-generation portion of the AG-1 customer's bill, and not to the portion representing a pass-through of charges from Alternative Generation Providers. This approach provides a reasonable balance of the interests among all customer concerns. He states that had the parties intended to exclude AG-1 customers from the application of the surcharge, language could have been included in the relevant portions of the Settlement, but was not.

¹ Decision No. 73183 at page 11.

**TESTIMONY SUMMARY OF
JAMES C. LETZELTER
ARIZONA PUBLIC SERVICE COMPANY
DOCKET NO. E-01345A-11-0224**

James C. Letzelter submitted Direct Testimony on behalf of the Utilities Division ("Staff") of the Arizona Corporation Commission ("ACC" or "Commission") regarding the Arizona Public Service Company ("APS" or "Company") acquisition the Southern California Edison ("SCE") interest in Four Corners Units 4 and 5. His areas of testimony include (1) assessment of the validity of APS's analytical approach; (2) an adjustment to the acquisition value; (3) assessment of APS's need for capacity; (4) assessment of APS's acquisition timing; (5) evaluation of risks of the transaction; and (6) identification of ancillary benefits of the transaction.

In his Direct Testimony, Mr. Letzelter finds that APS's analytics are based on sound economic and financial principles, and that the approach was consistent with industry standards. He performs a probabilistic analysis of the acquisition valuation by testing sensitivities of key input variables (the cost of natural gas and the cost of future carbon emissions). Based on his analysis, Mr. Letzelter finds that value of the acquisition has a probability-weighted value of \$315.5 million, in comparison to the \$425.6 million expected by APS. The results are lower, but still significantly favorable. Further, Mr. Letzelter provides an expected range of benefits between \$97 million and \$512 million - this is the 90% confidence interval.

Mr. Letzelter finds that, based on the retirement of units 1-3 for economic reasons associated with environmental requirements, APS did in fact have a need for new baseload resources. Further, the timing of APS's acquisition was prudent, and was in the best interest of balancing the economic benefits, risks, and supply reserve requirements. The risks identified in the assessment have been managed in a manner that should enable smooth operation of the facility, assuming APS stays on course with their risk mitigation plans, particularly related to the transfer of expertise to Navaho ownership. Finally, Mr. Letzelter identified several additional benefits of the acquisition, including the retention of approximately 800 jobs at the plant and mine, preserving of APS's pre-existing 15 percent of Four Corners Units 4 and 5, and fuel diversity.